

A STUDY ON ACCUMULATION AND DISTRIBUTION INDICATOR FOR TRADING IN INDIAN STOCK MARKET

Dr. T. Sundareswaran, Associate Professor, GRD Institute of Management, Dr. G. R. Damodaran
College of Science, Coimbatore – 641014, Tamilnadu, India.

Mr. S. Sathish, Research scholar, GRD Institute of Management, Coimbatore – 641014, Assistant Professor, KG College of Arts and Science, Coimbatore.

This article explains the accumulation and distribution line in the Indian stock market. The accumulation and distribution indicator is one of the best technical analyses available to investors. Technical analysis plays important role in analysing the stocks. It helps to decide to choose your securities. There are various technical analyses like moving average, Relative Strength Index, Dow theory, Odd lot Trading, Bar and Line Chart, Oscillators, On Balance Volume, Accumulation, and Distribution Indicator. One of the best technical analyses for the investors is Accumulation and Distribution Indicator. It is a volume-based indicator which measures whether the stock is accumulated or distributed. Some other technical analyses have not considered the volume of trading of stocks. The stock price falls or increases based on the volume traded in the stock market. It is necessary to understand the strength and weaknesses of the stock for the getting return. The accumulation and depreciation indicator line help to know the strength and weakness of stocks and whether we invest in the stock or not. We can identify falling lines or rising lines through the accumulation and distribution line. It identifies buying and selling signals. This article study about accumulation and distribution line and how this tool helps investors to decide on their investment in the stock market.

Keywords : Technical Analysis, ADI line, Stock Market, NSE Stocks

Introduction

Investment in the stock market involves higher risk than other financial instruments. The investors should conduct a careful study of the capital market to avoid risk. Investors can decide by using technical analysis. There are various technical analyses available to the investors but few technical analyses consider the volume of trade. It is necessary to know the volume of trade of stocks. Volume is one of the reasons for the price fluctuation. If investors purchase more volume the price automatically increases vice versa if investors sell more than the stock price will decrease. The volume of trade is an important factor that affects the stock market. Most of the technical analyses do not consider the volume of trade. One of the best technical analyses considers the volume of trade as an accumulation and distribution indicator line. We can identify the strengths and weaknesses of a particular stock by using the ADI line. It identifies the divergence between stock price and volume flow. Accumulation and distribution help investors to decide whether they invest in stock or not. It confirms a rising price trend or a downtrend price trend.

Need for the study

Investment in the stock market at the right time will get a higher return. The investor always seeks to invest at the right time for a higher return. For identifying the right time investors can use technical analysis. There are various technical analyses available to understand the trend of the stock. Among these one of the best volume-based technical analysis is the accumulation and distribution line but most of the investors do not consider the volume of the trading. Investors would consider the volume of the stocks to identify the signals. It helps to understand the buying and selling signals. The rising A/D line confirms a rising price trend and the falling A/D line confirms a price downtrend.

Objectives of the Study

- To Identify the Trend of the selected companies
- To understand the signals generated by A/D line

Limitations of the study

- The study is limited to know only A/D Line no other technical tools used.

➤ The study period is limited to 6 months can not used for long period.

Review Literature

Cory Mitchell (2022): This article titled "Accumulation and Distribution Indicator Tell You" gives detailed information about the A/D line. It indicates that volume and price to assess the stock is accumulated or distributed. It provides information on how to calculate an A/D Line and what a/d line tells you for the securities.

John Devcic (2022): This article titled "Trend a spotting with the accumulation/distribution line" explains how to determine the flow of money into securities. It helps to understand the market movement and A/D line to measure the buying and selling pressure on the security. It provides details of bullish and bearish signals of the securities.

Adam Hayes (2022) : "On Balance Volume use as Indicator". This article provides information about Balance Volume that uses the Volume flow to identify the changes in stock price. It is a volume-based indicator for price prediction. It shows a bullish or bearish outcome for the securities.

Research Methodology

Nature of Research

The present research is exploratory and empirical in nature with descriptive statistics based on the data of daily open, high, low, close, and volume of the stock closing price of the stock and 10 companies have chosen from NSE based on the market capitalization

Research Design

The purpose of the study is to find out the trend of the stocks and the selling and buying signals for the investment. The analytical research is used to analyze the trend of the securities.

Population and Sample

To identify the trend of the securities of 10 companies in NSE. These companies are selected based on market capitalization. In this study, the Judgment sampling

method is used for selecting the sample. A sample of 10 companies is taken from NSE. These are

1. Reliance Industries Ltd
2. Tata Consultancy Services Ltd.
3. HDFC Bank Ltd.
4. Infosys Ltd.
5. Hindustan Unilever Ltd.
6. ITC Ltd.
7. ICICI Bank Ltd.
8. Bharti Airtel Limited
9. State Bank of India
10. Bajaj Finance Ltd.

Period of the Study

The period of study is from March 1, 2023 to August 31, 2023

Data Collection

The study is based on secondary data. The data used for the study is extracted from the NSE India website.

Statistical tools

There are two technical analysis tools used to analyse the stock market. These are

Accumulation and Distribution Line and On Balance Volume.

➤ The Accumulation/Distribution Indicator (A/D) Formula

$$MFM = \frac{(Close - Low) - (High - Close)}{High - Low}$$

Where :

MFM = Money Flow Multiplier

Close = Closing Price

Low = Low Price for the Period

High = High Price for the Period

Money Flow Volume = MFM × Period Volume

A/D = Previous A/D + CMFV

Where :

CMFV = Current Period Money Flow Volume

Analysis and Interpretation

Chart No. 1

Accumulation and Distribution Line and OBV of Reliance Industries Ltd.

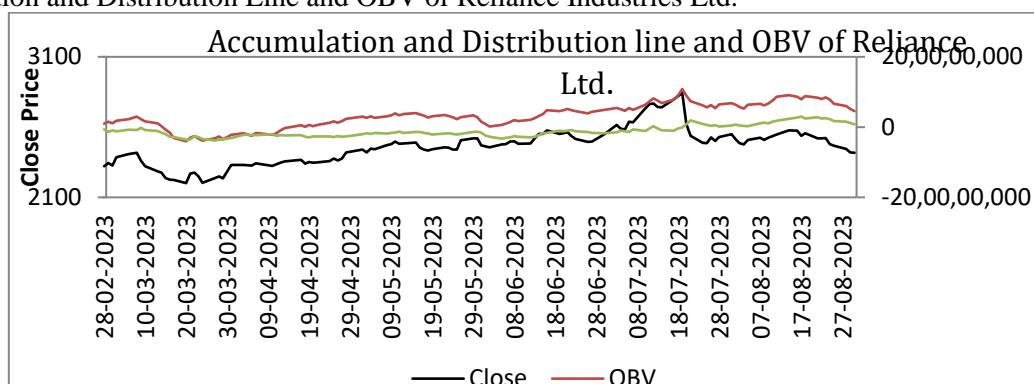


Chart No. 1 shows the six-month A/D line of Reliance Industries Ltd. The A/D line shows a downtrend in the month of March. On March 21, 2023, the trend started to upward. The trend shows upward and downward trends up to May 6, 2023. After the trend continues upward up to August 18, 2023, At the end of the date, the trend shows a downtrend.

Chart No. 2

Accumulation and Distribution Line and OBV of TCS Ltd.

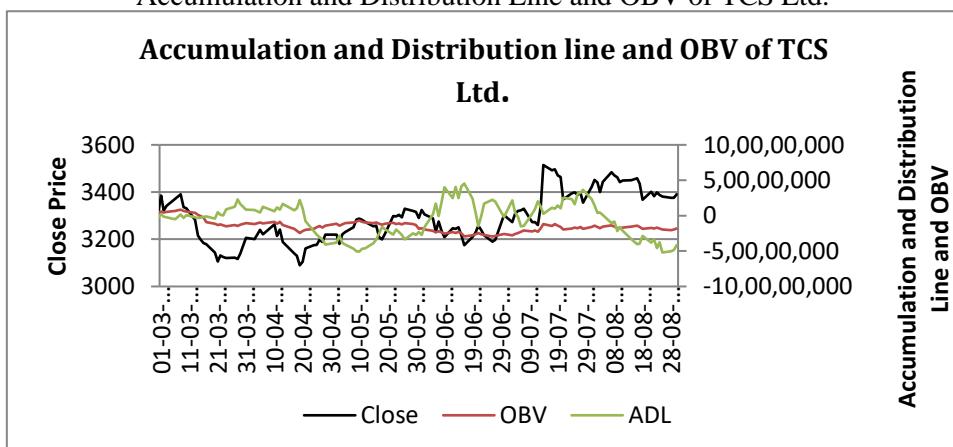


Chart No. 2 shows that the six-month A/D line of TCS Ltd. The downturn started in the month of March, and then it started to uptrend up to March 28, 2023. In the month of April, the trend shows a downturn and continues downturn longevity up to April 28, 2023. Then the trend started to uptrend. So the A/D line confirmed both the uptrend and the downturn. In the end, it shows an uptrend.

Chart No. 3 Accumulation and Distribution Line and OBV of HDFC Ltd.

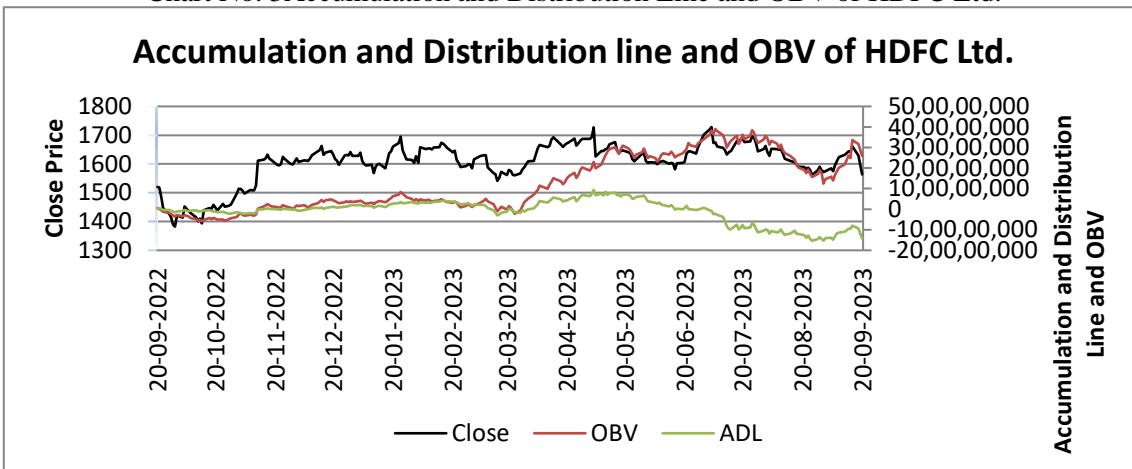


Chart No. 3 shows the six-month A/D line of HDFC Bank. It shows upward and downward trends in the month of March; the trend shows a downtrend. On March 15, 2023, the trend reversed and showed an upward trend. It indicates that the price accumulates, which is a signal for the buying of stock. The A/D line was in an uptrend until 04/05/2023 when it began to fall. At the end of the A/D line, there is a downtrend. It is understood that distribution will take place at the end of August.

Chart No. 4

Accumulation and Distribution Line and OBV of ICICI Ltd.

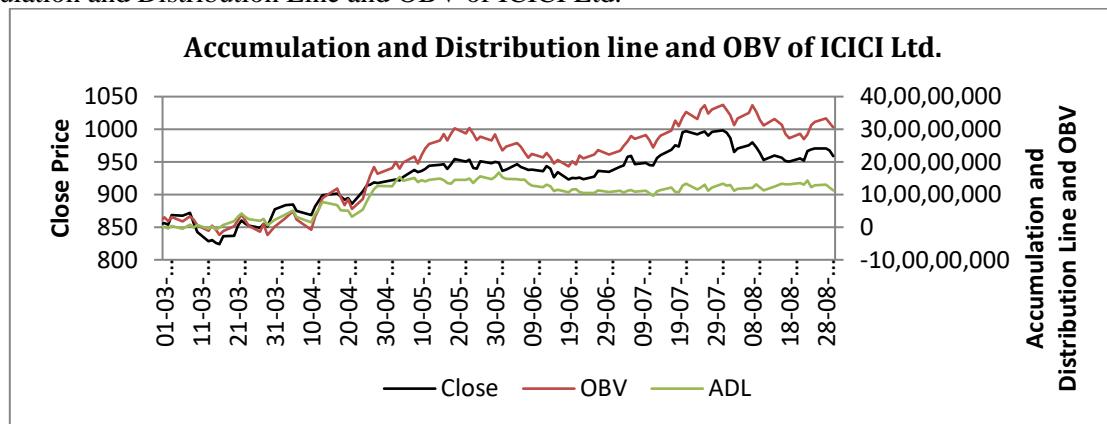


Chart No. 4 shows the six-month A/D line of ICICI Bank Ltd. It shows a minor downtrend and an uptrend for the securities. On March 16, 2023, the upward trend started and continued up to May 26, 2023. After this day, a minor upward and downward trend appears. At the end of August, the A/D line shows a downward trend.

Chart No. 5

Accumulation and Ltd Distribution Line and OBV of Infosys Ltd.

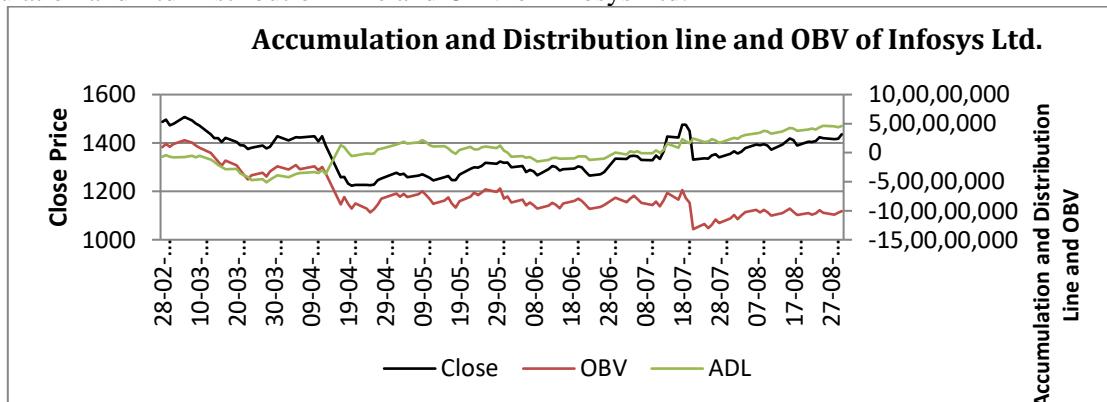


Chart No. 5 shows that the six-month A/D line of Infosys Ltd. The A/D line shows a downtrend and an uptrend. There has been a minor upward and downward trend for the past six months. At the end of August, the A/D Line confirmed an uptrend.

Chart No. 6

Accumulation and Ltd Distribution Line and OBV of Hindustan Unilever Ltd.

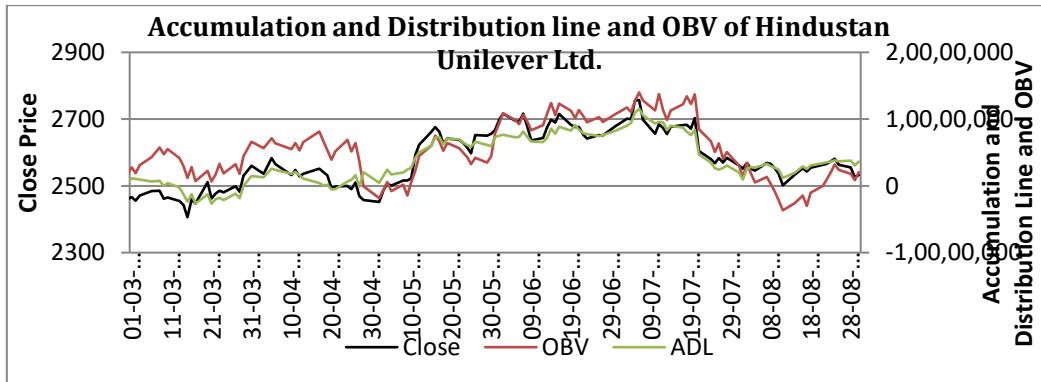


Chart No. 6 shows the six-month A/D line of Hindustan Unilever Ltd. The chart confirmed both an uptrend and a downtrend. It begins with a downtrend in the month of March. It shows the selling pressure on the stock, forcing it down. On March 17, 2023, the trend started to uptrend, and it continued up to July 7, 2023. This indicates that there is a long-term uptrend in the stock, which indicates the accumulation of the stock. There is a continuous downtrend shown up to 8/11/2023. The A/D line shows an uptrend in the stock at the end of the month.

Chart No. 7

Accumulation and Ltd Distribution Line and OBV of Hindustan Unilever Ltd.

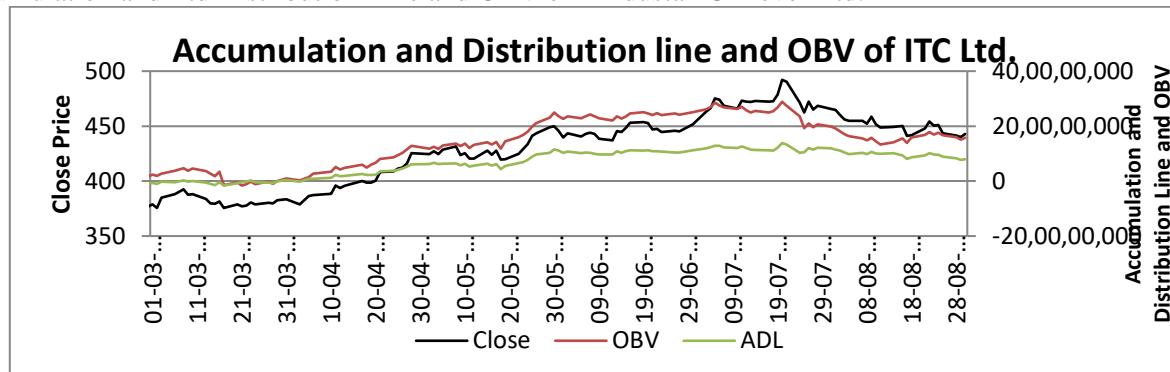


Chart No. 7 shows the A/D line of ITC Ltd. The A/D line shows that there is a strong uptrend in the stock. The A/D line confirms the strength and possibility of the long uptrend. It indicates the buying signal of the stock. At the end of August, the A/D line shows an upward trend.

Chart No. 8

Accumulation and Ltd Distribution Line and OBV of Bharti Airtel Limited

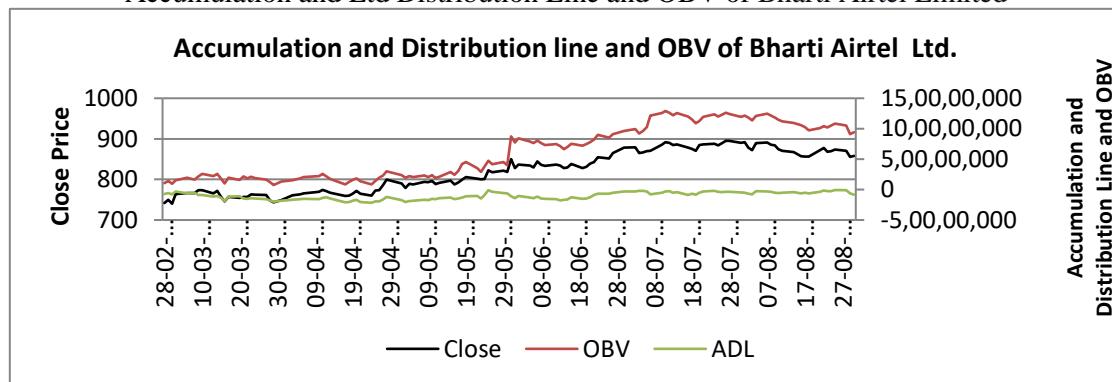


Chart No. 8 shows the A/D Line of Bharti Airtel Ltd. It shows that there are minor changes in the volume and the closing price, so there are minor changes in trends. The A/D line indicates an uptrend, which shows a strong buying signal for the stock. At the end of August, the A/D line shows an uptrend.

Chart No. 9

Accumulation and Ltd Distribution Line and OBV of State Bank of India

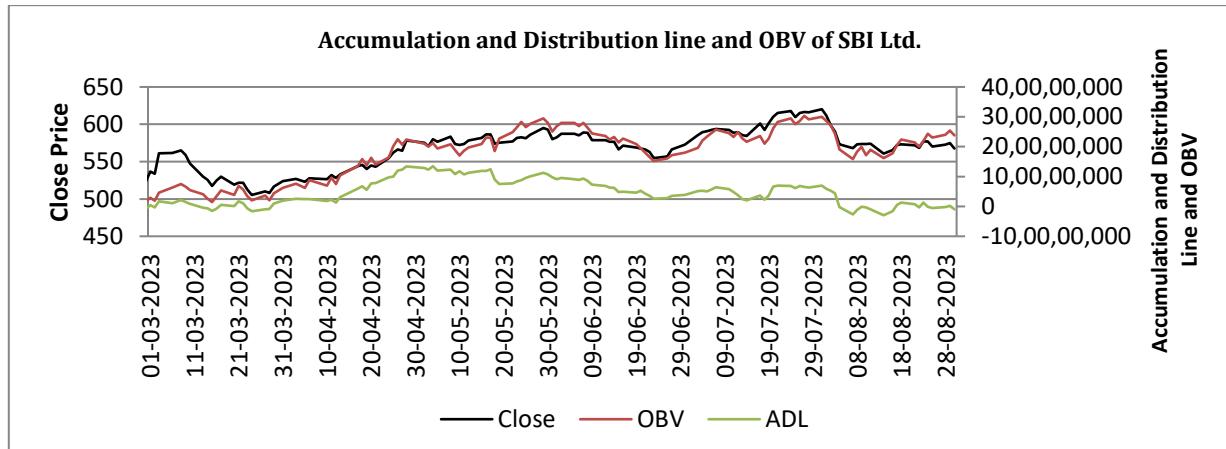


Chart No. 9 shows the A/D line of SBI Bank. The trend shows more fluctuation, which indicates a downtrend and an uptrend for the past six months. The trend reversal started and shows an uptrend from March 24, 2023, and continued up to April 28, 2023. The trend shows minor changes in volume and closing price at the end of the period. It indicates a downward trend.

Chart No. 10

Accumulation and Ltd Distribution Line and OBV of Bajaj Finance Ltd.

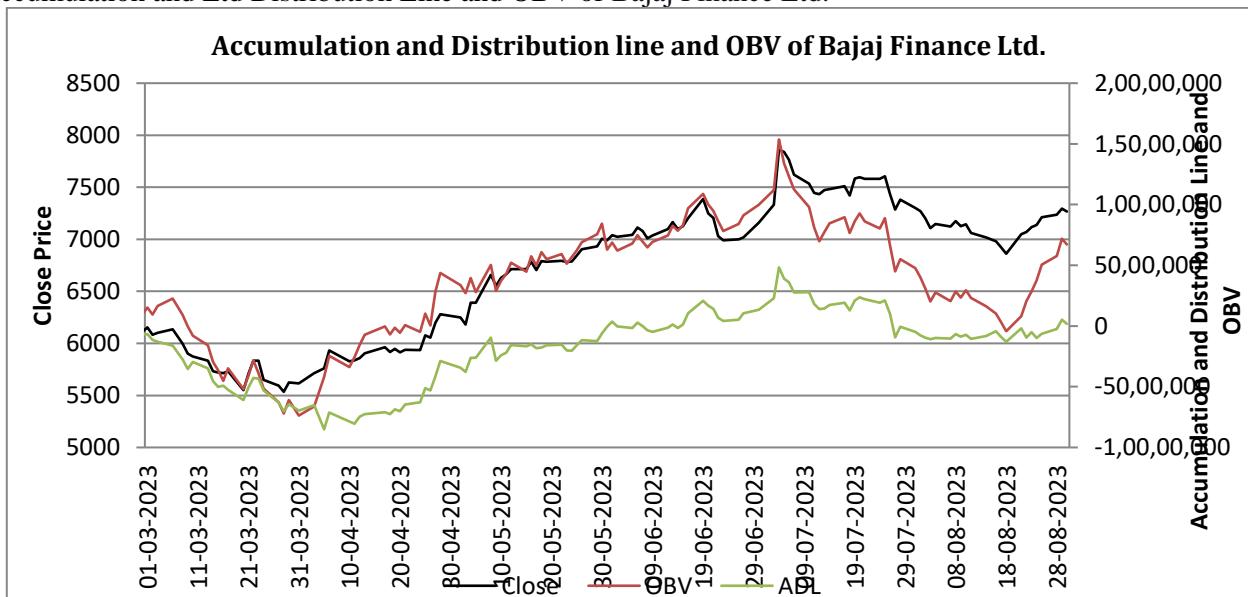


Chart No. 10 shows that the A/D line of Bajaj Finance Ltd. The A/D line shows that downtrend up to April 5, 2023. Then the line started to trend upward up to 05/07/2023. The trend reversal shows a downtrend, and there are minor upward and downward trends that show the accumulation and distribution of the stock.

Findings

- Infosys Ltd., Hindustan Unilever Ltd., and Bajaj Finance Ltd. stock indicate an upward trend.
- Reliance Industries Ltd., State Bank of India, and HDFC Bank indicate a downtrend at the end of the period.

- ICICI Bank, TCS Ltd., and Bharti Airtel Ltd. indicate a sideways trend at the end of the period.
- TCS Ltd. formed a bullish divergence in the month of June and a bearish divergence in the month of August.
- Infosys formed a bullish divergence in the month of July.
- The SBI A/D line shows more fluctuation in the selected period.

Conclusion

An upward trend indicates buying pressure, and a downward trend indicates selling pressure. Investors consider the A/D line when investing in the stock market because the volume of the stock is more important than the price. Price fluctuation is based on volume fluctuation. For stock investment, it is suggested that the A/D line with additional technical analysis such as RSI and moving averages give more profitable trading.

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